Modernizing New Jersey's Electric Utility Business Model

Public Stakeholder Meeting – Study on Behalf of New Jersey Board of Public Utilities

September 17, 2026

Agenda

+ Overview of Phase 2 Approach to Quantitative Analysis (20 minutes)
+ Q&A and Comments on Phase 2 Approach (20 minutes)
+ Overview of Stakeholder Working Groups (25 minutes)
  - Goals and Metrics
  - Technical Advisory
+ Working Group/Open Q&A and Comments (25 minutes)

Reminder: Study Research Questions and Outcomes

Key Questions

Phase 1

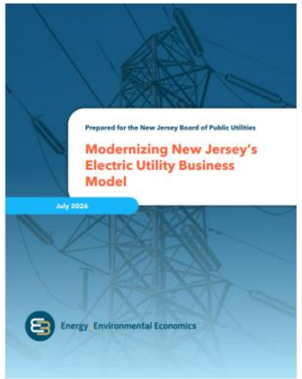
- What is the relationship between the traditional EDC business model and recent trends affecting electricity affordability?
- What policy pathways and opportunities can be implemented for long-term reduction and stabilization of electric bills?
- What are the barriers and risks to implementing reforms in NJ?

Phase 2

- How does current business model quantitatively affect utility rates?
- How do alternative utility business model reform options compare quantitatively in terms of ratepayer costs and bill impact by customer segment?

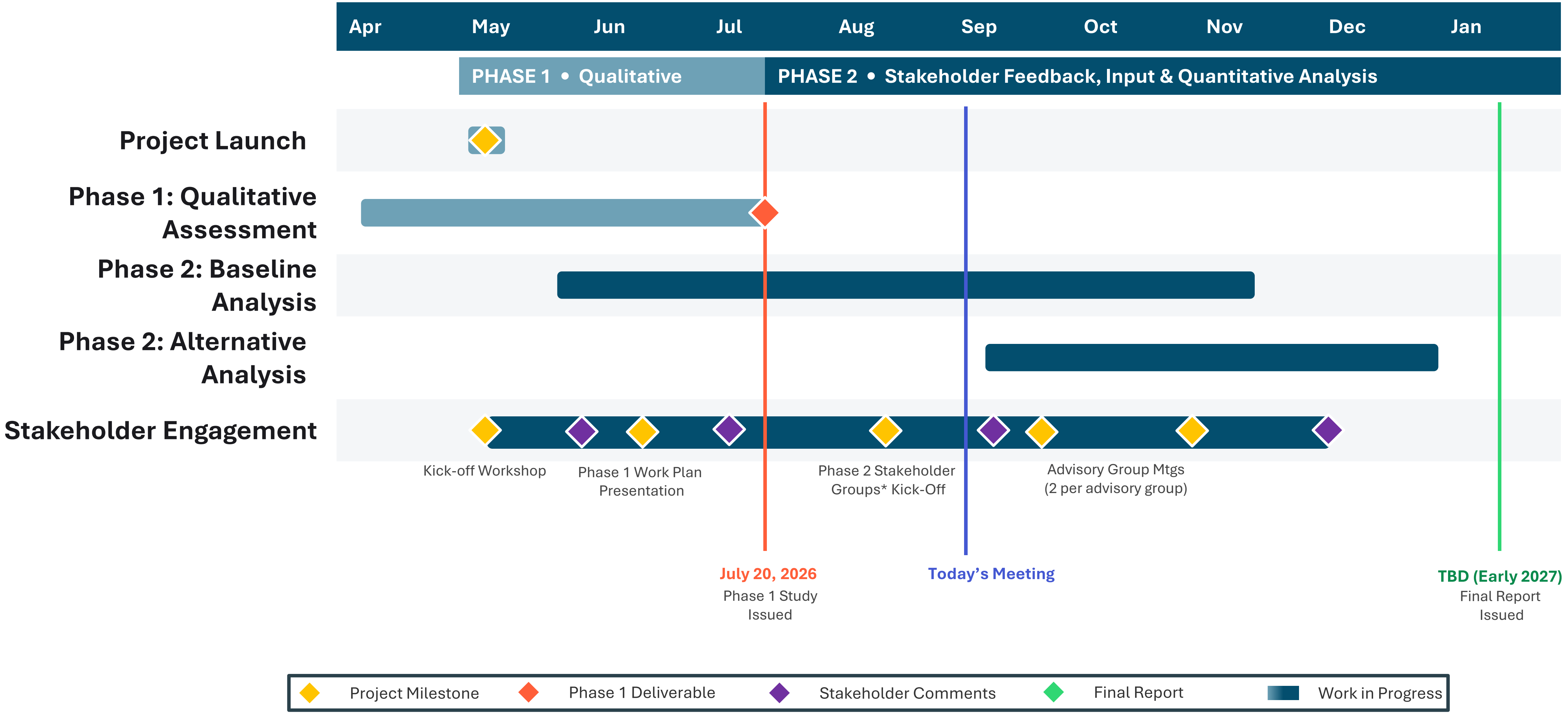
Study Outcomes

Phase 1 report provides qualitative assessment of range of potential business reform options, drawing on jurisdictional experience to date



Quantitative analysis of modernization and reform options, with **roadmap synthesizing** potential pathways and opportunities to achieve reductions in bills with consideration of practical limitations, barriers and risks

Reminder: Project Timeline



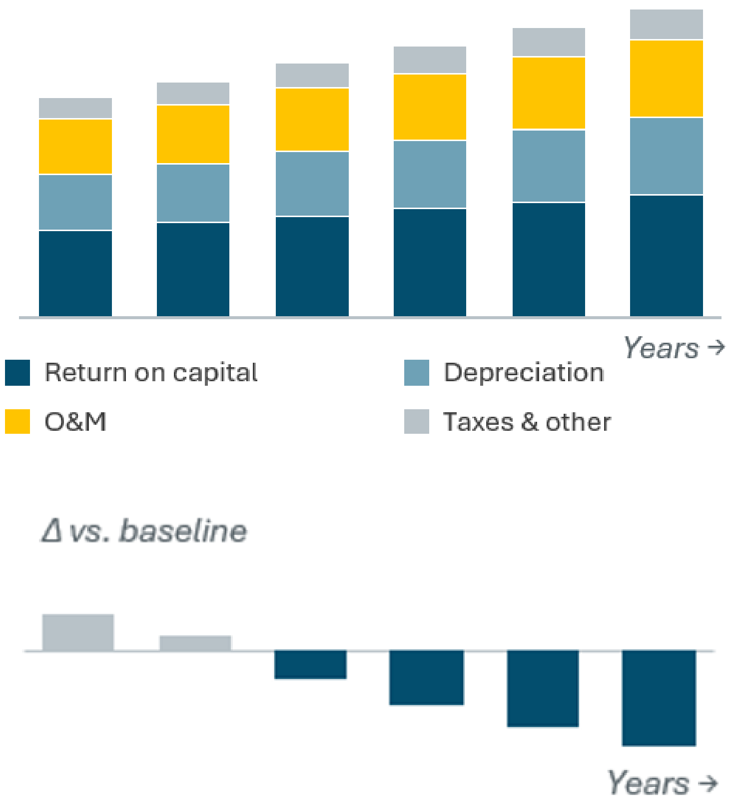
*There will be two Phase 2 Stakeholder Groups: (1) reform goals and metrics & (2) technical advisory. Both groups will jointly meet in August/September and at least twice each individually thereafter.

Overview of Phase 2 Approach

Phase 2 builds on Phase 1 qualitative findings with directional quantitative analysis

- **Phase 2 models candidate reform pathways using utility-specific financial and operational data, supplemented with public data**
- **Approach uses scenarios to compare options' potential impacts and approximate scale, not to forecast an exact future rate case outcome**
  - Scenarios will explore range of potential impacts
  - Some reforms are not easily "quantifiable" and may be illustrative in our assessment
  - Can use base model to assess both individual strategies and combined portfolios against a common baseline
  - Outcomes can include rate and bill impacts, or potentially other outcomes via Working Group
- **Outcomes will inform strategic recommendations and findings for NJ BPU consideration**

Illustrative Revenue Requirement



Key Data Received from Utilities for Modeling

+ **Utilities provided recent financial and operational data along with near-term forecasts where available, which E3 is leveraging to build out forward looking revenue requirement**

Existing rate base & depreciation

- Total plant in service
- Accumulated depreciation
- Depreciation schedules
- Net plant
- Additions/deductions (e.g., ADIT, working capital)
- Rate Base

Near-term capital expenditure forecast

- Forecasted capex to be added to rate base

Return on rate base

- Capital structure (equity & debt ratio)
- Return on equity
- Debt expense

Other utility expenses

- Historical operating and maintenance costs
- Taxes

Other cost recovery

- Existing riders, clauses, deferrals, etc.

Sales & customers

- Energy demand
- Peak load
- Customer counts

Baseline Model: Simplified representation of existing cost-of-service ratemaking and customer bill impacts, for each utility

+ Simplified revenue requirement model for each EDC, which estimates revenue requirement, customer rates and bills, and other outcome metrics annually

Distribution Revenue Requirement =
Depreciation + Return on Rate Base + O&M + Taxes + Utility Riders / Deferrals

Rate base roll-forward

Opening rate base	prior approved balance
+ Capital additions	base capital plan + riders
- Depreciation	asset lives / recovery rules
- Retirements	asset removal / plant updates
+/- Working capital	if in revenue requirement

Utility Cost of Service *

- Return = Rate Base x WACC
- WACC = (debt share x debt rate) + (equity share x equity rate)
- Depreciation = asset cost / life
- O&M expenses and taxes
- Trackers and true-ups feed outside base rates

Rates and bills

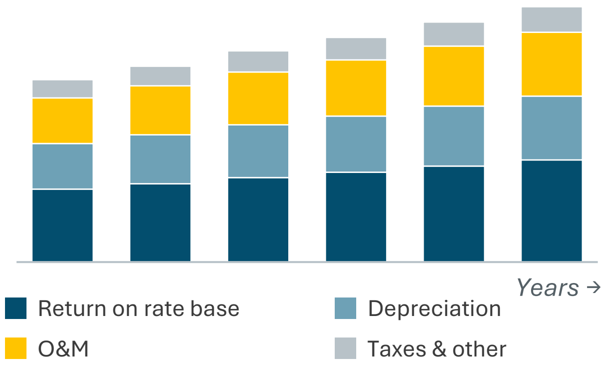
Class allocation	residential, commercial, industrial
Rate design	customer, demand, volumetric charges
Bill calculation	usage profile x tariff
Affordability metrics	electric bills, rates

* Supply charges, transmission charges, and other program costs are assessed as pass-through costs to customers

Alternatives assessment evaluates changes from the baseline under range of assumptions

1. Establish Common Baseline Cases

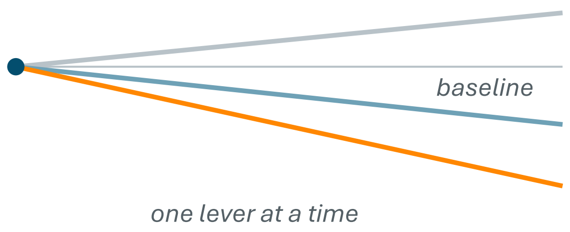
Each utility's annual revenue requirement, built up by cost component over the study horizon. Serves as the reference options are measured against.



Multiple baseline counterfactuals can show projections, building off utility data and best professional judgement, across **different worldview assumptions** about external growth drivers (e.g., low/high inflation, low/high load, etc.)

2. Apply Alternative Business Model Modernization Options

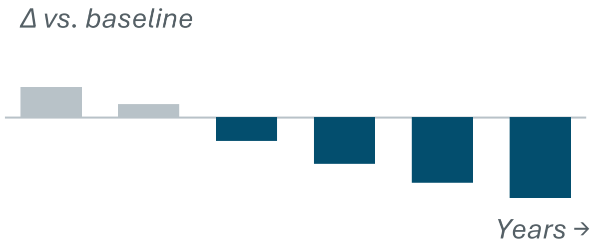
Each reform lever can be evaluated against the baseline, isolating its directional effect under illustrative assumptions.



Complementary levers are then combined into **packages**, phased over appropriate timescales.

3. Evaluate Range of Outcome Metrics

Results can include the year-by-year change versus the baseline in revenue requirement, rates, and typical bills.



Order-of-magnitude and direction to help to compare options, not to set rates.

ILLUSTRATIVE — NOT RESULTS

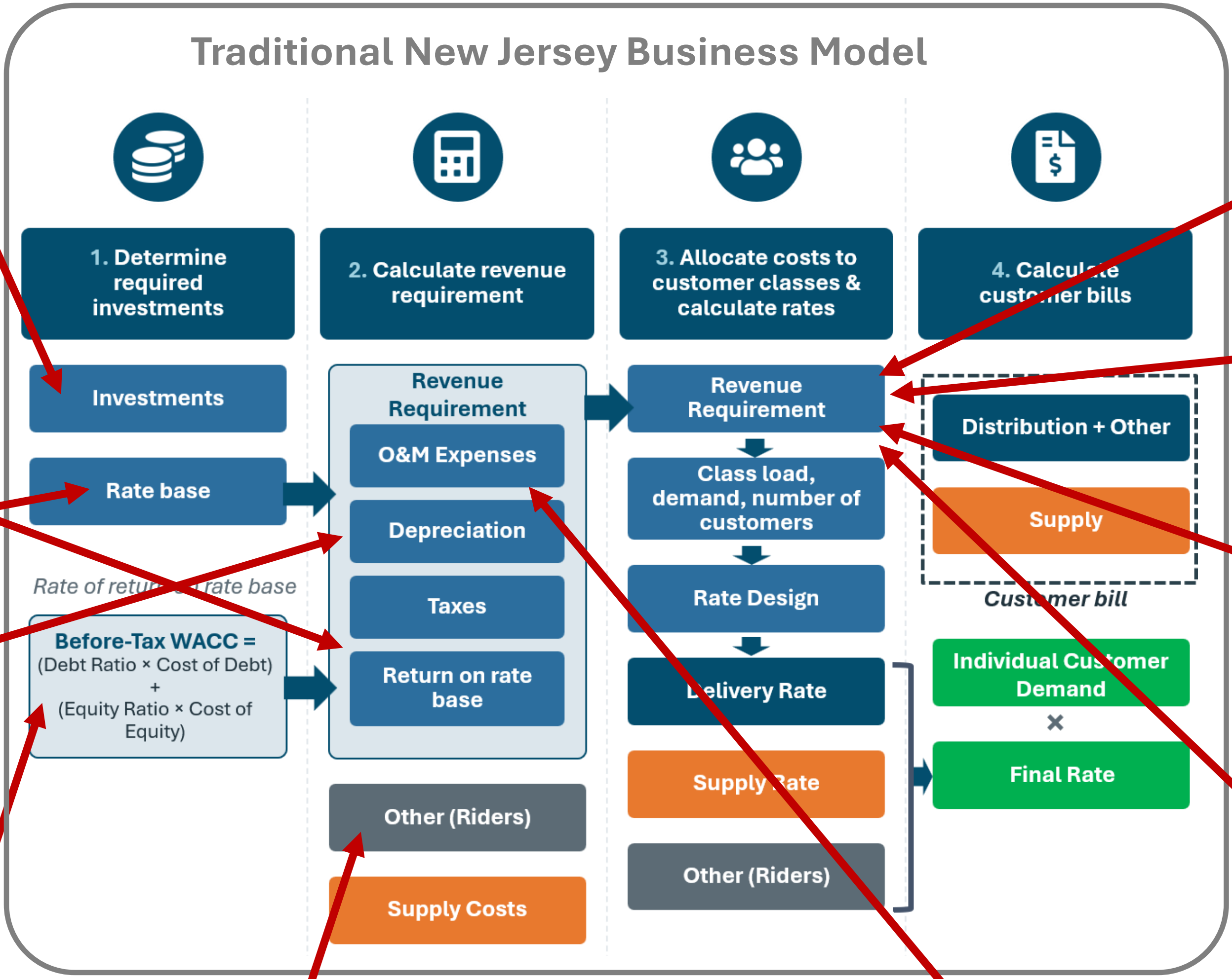
Where feasible, alternatives are implemented as changes in parameters, assumptions, and new modules in the revenue requirement model

Capital spending accountability could enable reduction or deferral of certain costs

Lower-cost **project pathways and/or securitization:** Carve out an eligible rate-base expense at lower financing cost (e.g., lower rate bonds)

Modified capital recovery: Longer asset recovery slows annual depreciation; CWIP toggle

ROE & capital structure: Adjust WACC inputs (i.e., authorized ROE, equity/debt shares, cost of debt)



Rider guardrails: Test moving riders to rate base

TotEx: Tests pooling capex and opex, and identifying opex alternatives

Multi-year rate plans: Replaces COS with an indexed formula; allowed revenue grows at inflation - productivity, rebased at intervals

Performance incentive mechanisms: Impact of potential rewards or penalties on overall rates; may also generate avoided costs

Earnings sharing mechanisms: Layered on MYR, demonstrate how earnings outside deadband may be shared back to customers

Revenue regulation and decoupling: Set rev req outside model with true-ups

Shared savings: identifies cheaper alternatives and avoided cost shared

Individual reform options will be combined into packaged potential policy pathways

- Each option can be evaluated on its own to isolate its impact
- However, because some options are complementary and/or interact, and are likely to be pursued in combination, team will also evaluate portfolios of complementary potential measures
  - Timing considerations can also be reflected in the modeling
- Packages from Phase 1 are "starting points" for analysis; will continue to revise and incorporate feedback

Examples of Combined Portfolios of Modernization Levers (from Phase 1 report)

Cost Discipline Foundation

Near-term · under existing BPU authority

Improve transparency, accountability, and the quality of spending decisions

- Capital-plan templates & benefit-cost analysis
- NWA screening, cost caps & ex post review
- Earned-vs-authorized ROE reporting

Financing Modernization

Near- to mid-term

Adjust the financing and capital-recovery parts of the revenue requirement

- ROE & capital-structure sensitivities
- Depreciation & CWIP treatment
- Securitization & lower-cost pathways

Targeted Incentives & Shared Savings

Mid-term · test and refine

Align utility earnings with measurable customer value

- Performance scorecards & targeted PIMs
- Shared savings for non-wires alternatives
- ESM guardrails; limited MRP elements

Staged Performance-Based Ratemaking

Longer-term

Move to broader performance-based regulation once baselines are ready and if early staged implementation demonstrates customer value

- Multi-year rate plans / full PBR
- Decoupling & outcome-based models
- ESM guardrails

Evaluate outcomes of both <u>individual</u> and <u>combined</u> policy portfolios relative to baseline

Results inform the NJBPU's assessment and potential roadmaps

+ **Results of the Phase 2 quantitative analysis can *inform* NJ BPU priorities, future analysis and roadmaps, but they are not going to provide a single answer or final set of actions or priorities**

Quantitative results
Rate and bill impacts by modeled policy scenario, across a range of conditions to assess both direction and robustness to uncertain future conditions

Stakeholder input
Working groups, public sessions, and written comments are considered

Feasibility assessment
Legal authority, implementation complexity, timing, etc.

Evaluation against stakeholder-informed goals & metrics

Prioritization

Overview of Stakeholder Working Groups

Phase 2 Stakeholder Working Group Overview

BPU, with support from RAP and E3, will convene two stakeholder working groups in fall 2026.

- Utility business model and regulatory reform goals, priority customer outcomes, and associated metrics **(Goals and Metrics Working Group)**
- Utility business model reform options and quantitative analysis technical advisory working group **(Technical Working Group)**

The objectives of the working groups are to:

- Better **understand stakeholder perspectives** on potential regulatory and utility business model reforms
- Further develop and **refine the Phase 2 quantitative analysis**, ensuring that the E3 analysis is fully grounded in the New Jersey context
- **Establish priority goals and outcomes** to support qualitative evaluation of potential reforms that complements the quantitative analysis
- **Cultivate buy-in** on potential regulatory and utility business model reforms in New Jersey and associated next steps

The working groups will meet the following dates:

- **Thursday, September 17th (virtual):** Joint kick-off meeting to provide additional information on the scope and timelines of the working groups
- **Thursday, October 1st (hybrid, in-person and virtual):** First individual working group meetings
  - **Technical Working Group:** 9:30am-11:30am
  - **Goals and Metrics Working Group:** 1:00pm-3:00pm
- **Thursday, November 5th (hybrid, in-person and virtual):** Second individual working group meetings
  - **Goals and Metrics Working Group:** 9:30am-11:30am
  - **Technical Working Group:** 1:00pm-3:00pm

Goals and Metrics Working Group

The Goals and Metrics Working Group will seek to establish:

- Regulatory goals to inform utility reforms and metrics
  - This is largely confirming well-established regulatory goals
- Priority customer outcomes tied to the regulatory goals
- A definition of energy affordability
- Metrics to measure utility performance and the impact of any reforms
  - **Metrics established by this working group, if any, will be for reporting purposes only;** Performance incentive mechanisms are outside the scope of this working group
- What data the EDCs collect and any new data that will need to be collected for the newly establish metrics

Tentative working group agendas:

- **Thursday, October 1st, 1:00pm-3:00pm (in-person):**
  - **Welcome + Introductions** (10 min)
  - **Discuss regulatory goals** (20 min)
  - **Discuss priority outcomes** (50 min)
  - **Discuss on the definition of energy affordability** (30 min)
  - **Closing + Next Steps** (10 min)
- **Thursday, November 5th, 9:30am-11:30am (in-person):**
  - **Welcome + Recap of October 1st Goals/Metrics/Affordability Discussion** (15 min)
  - **Discussion on regulatory goals, priority outcomes, and energy affordability definition** (15 min)
  - **Presentation on metric design + potential metrics** (15 min)
  - **Discuss potential metrics** (60 min)
  - **Closing + Next Steps** (15 min)

Why Goals, Outcomes, and Metrics?

The Goals-Outcomes hierarchy illustrates the relationship between utility regulation and utility performance

- Goals are the highest-level orientation for regulatory actions
  - In recent decades, regulatory goals have expanded beyond reliable, affordable, and safe service
- "Customer" outcomes result from utility operations and business decisions
  - Outcomes represent how utility customers, market participants, and the public experience the power sector
- Metrics are a standard form of measuring outcome success
  - Metrics are fundamental to determine how utilities achieve outcomes and meet regulatory goals
- Jurisdictions often establish regulatory goals and priory customer outcomes as a **qualitative way to evaluate potential regulatory reforms**

Metrics provide a baseline for utility performance and changes in utility performance over time

- Metrics are important to establish early in any regulatory reform process to:
  - Measure utility performance
  - Help understand the impact of any business model or regulatory reform(s)
- Metrics provide important quantitative indicators but do not capture all of the nuances of utility performance or impacts of regulatory reforms
- In general, metrics should:
  - Be outcomes-based
  - Be clearly defined, articulated, and understandable
  - Use reasonably available and verifiable data
  - Allow for regular reporting and periodic evaluation

October 1st Goals and Metrics Working Group Discussion

Materials Shared Ahead of October 1st Working Group:

- Proposed regulatory goals and priority customer outcomes for use in New Jersey will be shared ahead of the October 1st working group meeting
- **The proposed goals and customer outcomes are strictly for discussion purposes**

October 1st Discussion Questions:

- Stakeholders will be **asked to provide feedback on the proposals** at the October 1st Working Group meeting, specifically:
  - **How well do both proposals (regulatory goals and priority customer outcomes) align with New Jersey's needs?**
  - **How should the proposals be modified, if at all? Why?**

Technical Working Group

The Technical Working Group will seek to establish:

- Discuss potential reform options in greater detail to better understand stakeholder perspectives. Reforms to be discussed fall within the categories identified in the Phase 1 study:
  - Cost Discipline Foundation
  - Financing Modernization
  - Targeted Incentives & Shared Savings
  - Staged Performance-Based Ratemaking
- Share elements of the Phase 2 quantitative analysis
- Test assumptions and validate jurisdiction-specific information related to the quantitative analysis, as applicable

Tentative working group agendas:

- **Thursday, October 1st, 9:30am-11:30am (in-person):**
  - **Welcome + Introductions** (10 min)
  - **Presentations + Discussion on Potential Reforms** (60 min)
  - **Presentation + Discuss on Phase 2 Modelling** (40 min)
  - **Closing + Next Steps** (10 min)
- **Thursday, November 5th, 1:00pm-3:00pm (in-person):**
  - **Welcome + Recap of October 1st Meeting** (10 min)
  - **Presentations + Discussion on Potential Reforms** (60 min)
  - **Presentation + Discuss on Phase 2 Modelling** (40 min)
  - **Closing + Next Steps** (10 min)

October 1st Technical Working Group Discussion

Reform Options and Sequencing:

- Stakeholders will be **asked to engage in discussion on potential regulatory reforms** at the October 1st Working Group meeting:
  - What strategies and packages are top priorities to see evaluated?
  - What combinations of strategies should be grouped together?
  - What sequencing seems most reasonable and achievable?
  - What barriers should be acknowledged or reflected in the scenario design?

Phase 2 Modelling:

- Stakeholders will be **asked to engage in discussion on the Phase 2 quantitative modeling** at the October 1st Working Group meeting:
  - Data: Is the baseline reasonable? Are the "world view" assumptions appropriate?
  - Are reform mechanics credibly reflected in the modeling?
  - Do the value ranges we model span the full range of ways reform could plausibly be enacted?
  - Which strategies conflict or double-count, and are we accurately capturing these dynamics?
  - Are there specific benchmarks or jurisdictional experience that you believe we should benchmark or compare our results to?
  - What barriers should be reflected in the modeling assumptions? What caveats should be acknowledged?
  - What can't be quantified, and how should it be assessed instead?

Stakeholder Working Group Logistics

Working Group Registration:

- Working groups are open to all stakeholders
- **Stakeholder must register to attend the October 1st and November 5th workshops in-person**
  - Information on how to register to attend in-person will be posted to BPU's **public notices webpage**
- Stakeholders unable to attend the workshops in-person may participate online
  - Links for virtual attendance can be found on BPU's **public notices webpage**

Meeting Materials:

- As necessary, materials will be shared ahead of working group meetings to make efficient use time during working group meetings
  - RAP / E3 will aim to share materials with working group members at least one week ahead of each meeting
- **Stakeholders are encouraged to come prepared to discuss the shared materials at the working group meetings**

Stakeholder Participation Tools:

- Mentimeter will be used by the Goals and Metrics Working Group (and potentially the Technical Working Group) to facilitate discussion

Questions & Answers and Stakeholder Feedback

Appendix/Backup